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The Role of Pawnshops in the Life Strategies of Lower Income Groups- A Preliminary Study in St. Petersburg/Russia

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The Role of Pawnshops in the Life Strategies of Lower Income Groups – A Preliminary Study in St Petersburg/Russia

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1. Introduction¹

In the context of development research scholars have emphasised the importance of pawnshops as ‘banks for the poor’. They have a high outreach, are very often financially viable and have several advantages, compared to other institutions of the micro financial sector. Clients cannot fall into long-term indebtedness, due to the fact that they have to deposit a pawn of at least the same value. And for the pawnshop this pawn reduces the risk to provide a loan to poor people, and monitoring is not necessary.

This theoretical approach is also very important for transformation societies. Rapid change from state dirigisme with relatively high social security to a parallel structure of market and shadow economy, with a lack of social security, provides an insecure environment for the population. Elsewhere these have been called ‘stratum of the unsecured’ (*‘Schicht der Ungesicherten’*; Elwert, Evers and Wilkens 1983). Not only people who are excluded from economic activity (scholars, students, invalids, pensioners, housewives, homeless, etc.), but also a large part of the economically active population are affected. They receive very low and irregular primary salaries, which are insufficient to make a living and have to be supported by secondary incomes from formal and informal sectors. Particularly civil servants are affected by low and irregularly paid salaries, as well as sudden ‘solidarity cuts’ for the rehabilitation of the state budget. For empirical research the microeconomic household is the unit of analysis, and its members develop joint strategies to make a living with incomes from formal and informal sources.

¹ I would like to express my gratitude to those students of the third, later fourth course from the Dpt. of Social Anthropology at the State University of St. Petersburg, who participated in this research and conducted the interviews. The concept of students’ research was developed at the Faculty of Sociology, University of Bielefeld and now applied to St. Petersburg. It consists of three phases of training: (1) writing a research proposal; (2) doing field research; and (3) data analysis and writing of a research report. During summer 1997 - 1999 the author worked in this department as a Professor for Social Anthropology.

The hypothesis of this research was that lombard houses² provide important financial institutions in the survival strategies of poor households. Field research was conducted during summer 1998 in St. Petersburg.

Before I shall discuss the findings, I would like to explain some theoretical and technical aspects of pawnshop operations, as well as the particular role of pawnshops in Russia.

2. Lombard Houses³

Pawnshops are financial institutions, which are found all over the world and provide quick and easy money to their customers who are short of cash. These offer a pawn to the lombard house which usually exceeds the loan amount in value. Like with mortgages (immovable property of land and houses) the securing of a credit takes place by testifying the right to the lender to satisfy his claims by sale of property in case of default of the customer. While in the case of mortgages, however, the use right remains with the borrower, this is not so in the case of pawnshops. Borrowers have to place their movable goods in the pawnshop for storage. Principally the pawning of a good means that it has to be accepted by the pawnshop and assessed according to its market value, while the customer obtains a certain percentage of this value as a credit. The turnover of pawnshops is primarily directed to short-term credit.

From the theoretical point of view a pawnshop credit is not a real credit, but a sale under value with the right to re-purchase. According to Skully

”One should consider the person borrowing money from a pawnshop, as effectively selling the item in question to the pawnbroker, in return for the cash amount of the loan, plus a call option to repurchase the item at a set price at a future date” (Skully 1994: 360).

² In Russia: *dom lombard* = lombard house, pawnshop. It is related to the historical fact that moneylenders from Lombardia (Italy) went to France to start moneylending. In the report I will use the terms ‘pawnshop’ and ‘lombard house’ synonymously.

³ I refer to the materials of the Conference "Perspectives of Lombard Services Development" (*Perspektivi rasvitija uslug lombardov*), held in Moscow on 6 August 1998.

This means that the credit sum is the (market or material) value of the pawn minus the value of the right to re-purchase the item. However, from the technical side the customer pays interest for the credit like in the case of bank credit, and usually also a certain fixed sum or percentage of the value of the pawn for storage. In case of default of interest payment or repayment of the loan sum after a maximum period the borrower loses the right to redeem the pawn, and the pawnshop receives the right to sell the item to the public. Pawnshop transactions either aim at covering the costs or obtaining profit. A social institution, however, can also be subsidised and operate below the level of cost coverage.

Pawnshops may offer credit without long and complicated procedures, since information cost over solvency of the customer and a continuous monitoring does not occur, because of the storing of the pawn exceeding the value of the pawn. From the perspective of the customer shaming questions concerning his personality and social status, his income situation, his employment status do not apply. On the other hand, the transaction costs of pawnshop credit are quite high due to storage (particularly storage of large consumer goods) and safe keeping of these goods, which can be reduced to some extent by only accepting selected items with low size and high value. This is typically the case with jewellery (gold and silver items, precious and semi-precious stones) or silver cutlery. Here, however, the value of the pawn is assessed not according to the market value of the article, but its gold or silver price. The risk of the pawnshop is limited to the fluctuations of these prices. In case of goods, where the pawnshop assesses the market value, the risk involves the wrong assessment, as well as value decrease due to market laws and fashion changes.⁴ Furthermore, the general problem occurs to handle stolen items, which is reduced by identity checks of the customers.

For summer 1998 the journal "*Sovremennij Lombard*" outlined the following comparative interest rates and credit conditions of lombard houses, which we complement by our Russian findings in St. Petersburg:

⁴ For example, a personal computer is no good pawn, due to its quick loss of value. The same holds true for other consumer goods. Many pawnshops therefore only accept if they are brand-new or not older than a year.

Table 1: Comparative Interest Rates in Selected Countries, Summer 1998

Country	Percent per month	Min period	Max period	Advantage period ⁵
USA	From 2 to 25 %, depending on the State	no	1 to 3 months	1 to 3 months
Great Britain	5 %	no	until 6 months	1 month
Sweden	4 %	no	4 months	2 months
Australia	Up to 50 \$: 10\$ more than 50 \$: 20 %	7 days	1 month	1 month
Russia ⁶	21 % for a month	no	1 months	1 to 2 months

3. The Customers

In the discourse on development issues pawnshops are discussed as important credit sources for particularly low-income households. Due to their social standing they usually do not have access to banks.⁷ As found in our survey, in Russia access to a savings account is principally possible, while private persons can hardly obtain consumer credit from banks. An exception provides a loan for housing purchase.

Therefore people very often depend upon - sometimes dubious - formal or informal financial actors, friends or relatives. Moneylenders of different types particularly exploit the problematic financial and life situation of their clients to claim extremely high interest rates. While in Western societies financial laws and regulations largely restrict the financial market, this is usually not so in developing countries or transformation societies, so that debtors are very often on the mercy of the claims of their creditors.

Long-term indebtedness cannot occur in the case of lombard houses. In case that the debtor does not pay his interest or cannot repay the loan amount in a certain

⁵ This is a concession to the customers that they receive a certain additional time limit until the pawn will be sold.

⁶ Here we refer to the prices of the municipal "Vassilieostrovskij Lombard" in 8 Linea, which – comparatively speaking – is not the cheapest among the lombard houses.

⁷ For a discussion of the financial landscape in developing countries, see Schrader (1997). Access to bank accounts and bank credit is not only a problem in developing countries. For example, Wolf (1997) mentions that even in the United States 24 million households have no bank account or access to bank credit for a number of reasons.

period of time, the pawnshop confiscates the pawn and sells it in an auction or in its sales shop to cover costs and loss. In the worst case the customer loses his item, but after this sale or auction he will be freed from any obligations towards the pawnshop. Literature therefore titled pawnshops as fringe banks (Caskey 1994) - "banks for the poor".

A critical reflection upon this term, however, shows that from the logic of operation of a pawnshop a very poor customer can hardly belong to the target group. This is because of the simple reason that he or she has nothing to offer which has a market value, and which a pawnshop accepts for pawn.

From the point of view of lombard houses the wide-spread occurrence of private pawnshops demonstrates that the business is lucrative, in spite of its basically social character. Therefore it seems to be safe to argue that the customers belong to all strata of society, with the exception of the very poor. Not only lack of access to bank loans, but also the quick, easy and discreet operation of a pawnshop, as well as the short loan periods may explain why people are customers of this financial institution.

"Most people who need to borrow relatively small sums of cash in a hurry don't want the fuss and formality of a bank loan. It's a simple equation, but if your credit card is heaving at its limit - or you simply don't have one - then the shops (...) can be an attractive proposition" (Andrews 1994: 37).

Wolf (1997) provides another explanation, which should not be neglected:

"For many people, a pawnshop is considered a place where folks down on their luck got to hock a family heirloom to get money" (Wolf 1997: 1G).

4. The History of Pawnshops

Pawnbroking is probably as old as private property.⁸ According to Skully (1994) pawnshop institutions, however, date back to around 1.000 AD. The first pawnshops in Italy had a religious affiliation with social character, but they were distinct from present pawnshops in their way of operating. They mainly loaned means of

⁸ Already the Holy Script refers to pawns (Exodus, ch. 22, verse 25: "(...) his clothes as a pledge of his repayment").

production such as tools, ploughing animals of the monastery, etc. to needy people. To reduce the risk they sometimes required a pawn or a guaranty by a third party.

The old documents do not refer to interest rates. The Holy Script prohibited the taking of interest, but in spite of this usury was common in everyday life.⁹ Moneylenders very often belonged to non-Christian religious groups (particularly Jews), and as foreigners who conducted morally reprehensible business they were stigmatised (e.g. Le Goff 1979, 1988). The prohibition of interest in the Christian medieval period can be compared to the still existing prohibition of *riba* (interest) in the Qur'an and most Islamic countries. To circumvent interest, transactions are concealed behind sales-repurchase arrangements, or legalised/legitimised as risk-sharing transactions (see Schrader 1998).

Only with the emergence of modern market society, means-end economising, profit maximisation and interest became not only legitimate, but also **the** parameters for definition of rational economic action. And only then pawnshops got their contemporary character. In most countries of the world a parallel structure of private and public pawnshops is common, and both forms of operation are subjugated to financial laws and regulations. In case of prohibition of private pawnshops these use to operate in an unregistered way, very often as jeweller shops or antiques shops, and then also very often they deal in stolen items.

Nowadays both private and public pawnshops try to get rid of the image of usurers operating in dark, dusty back building outside the scope of the protecting arms of legislation and sucking their clients dry. This image is also predominant in 19th and early 20th-century literature (see Shatzmiller 1990).

In many cases pawnshops belong to chains with a widespread branch network. They make their accounting with modern on-line technology and special computer programmes designed for optimising pawnshop operations. They are more similar to banks or insurance company offices in their appearance than to the old image. Sometimes they make an aggressive advertisement in television, radio and newspaper. Personnel are trained to be polite and helpful. Procedures are quick and easy to avoid long queues. Regulations are put up at pin boards. The rationale of a

⁹ According to Le Goff (1980: 29) usury was defined as 'where more is taken than is given' and is therefore more close to our contemporary understanding of interest than 'excessive interest'.

modern pawnshop is not to appropriate property of its customers. Preferable is to keep working capital in circulation to achieve a maximum profit. Therefore modern pawnshops very often employ mathematicians and statisticians to determine according to mathematical models, which is the most appropriate interest to achieve this goal.

According to Andrews (1994) and Wolf (1997) modern pawnshops are flourishing, expanding businesses. Wolf rejects the idea that they increase their business volume particularly in economic recessions and crises. For already quite a long time pawnshop business flourishes in the United States, Great Britain and Germany. Personal interviews in St. Petersburg support this view. The Russian crisis of August 1998 and its consequences even have a negative effect on pawnshop business. One reason is that the necessary credit line to banks has become more expensive, and that also pawnshop interest rates had to increase, another reason that appropriate pawns are in short supply now, since many customers defaulted and lost their pawns to pawnshops.

5. Russian Lombard Houses¹⁰

Also in Russia the pawnshop has a long tradition. The first pawnshop dates back to 1729. A decree of Anna Ioanovna ordered the financial authorities to issue loans having silver and golden things as pawns with 8 % interest per year. Elizaveta Petrovna established a loan bank, which among other things was responsible for providing loans against valuable pawns. In 1772 loan offices (state lombards) were opened in St. Petersburg and Moscow. Until 1790 they were the only institutions dealing in issuing loans for small consumer articles. This does not take into account some private loan offices that always charged a percentage above the officially fixed maximum limit. By 1840 opened a company named "Company for Keeping and Pawning Different Movable Things and Goods (St. Petersburg)". It charged a split price for issuing a loan and storing the pawn, and this price scheme has still been practised in a number of pawnshops until now. It was only at the end of the nineteenth century that owing to the efforts of some private entrepreneurs private lombards, in the form of joint stock companies, were established in both capitals and some other big cities. Private capital investment mainly took place in the primate

¹⁰ Here I follow the conference material "Perspectives of Lombard Services Development (*Perspektivi rasvitiya uslug lombardov*)" 1998.

cities of St. Petersburg and Moscow, while only a small portion of it went to the towns and villages. Among the lombard houses some specialised in issuing loans for pawning grain. These lombard services freed the peasants from the necessity of selling their grain in autumn at lower prices and therefore can be considered to be a social institution. Under the impact of the Revolution a decree was issued on 14 December 1917, which implied nationalisation of Russia's banking system. It was followed by a number of special orders, which concerned certain types of loan provision. On 29 April 1919 state loan offices were closed. According to the same order all pawning operations came to a halt, including the storage of pawns. Only under NEP (new economic policy) state pawnshops were reopened in 1920.¹¹ They existed as such until the end of the 1980s. During the Soviet period the political attitude towards lombards was ambivalent. On one hand they were social institutions, on the other hand poverty was non-existent for ideological reasons. Therefore the public image was that pawnshop customers primarily wanted to get rid of old stuff. Indeed, as interviews with old-aged customers showed, pawnshop loans were not directly connected to market prices.¹² In the course of economic reforms state lombards came under the management of local authorities. Since then a transformation process from public to private institutions has itself affected pawnshop industry in Russia. While after liberalisation of the financial market in 1992 the number of pawnshops exploded, a number of these had no sound practices (and some disappeared with their customers' property or collapsed due to mismanagement). Nowadays there are around 1.200 registered pawnshop enterprises in Russia,¹³ most of which have become private institutions¹⁴ of different registration forms, many of them joint-stock companies.¹⁵

¹¹ NEP was a policy of temporary economic liberalisation in the Union of Soviet Socialist Republics (USSR) from 1921 to 1928 to revitalise the economy, increase food production, and permit business growth after the civil war.

¹² As an old informant mentioned, customers had to queue at already six o'clock in the morning if they would like to obtain a loan. The reason was that the pawnshop had only limited funds and could provide loans in case that a customer paid back debts. Maximum credit was 200 Roubles, and maximum loan period one month. If one required more money, one had to queue another time.

¹³ Personal information achieved from the Russian Pawnbrokers Association.

¹⁴ In this article "private institution" shall include all those institutions, which are not government-owned or owned by the city administration. These shall be called "public".

¹⁵ The lombard business expanded rapidly during the last years. From 736 enterprises in January 1997 it jumped up to 928 in January 1998 and 1017 in June 1998 (Source: *Sovremennij Lombard 1998*).

The necessity of a further development and improvement of lombard loans is due to the economic and social circumstances (e.g. Glinkina 1997; Lapidus 1995; Shrubar 1991), causing a high demand for short-term loans. The producing economy has almost come to a standstill, while commerce and services in the formal, as well as in the shadow economy more or less function. The instability of the economy, low wages and pension payments, which are often below the official subsistence line and paid irregularly, caused a dramatic decrease of the people's standard of living.

"Compared to 1993-1994 the population has nowadays been impoverished. We see this from the things they offer to us. They even take their last bed sheet to the lombard house, gloves, bags. We practically take all with which we can survive, i.e. which in the future is liable to be sold when the client cannot buy it back" (personal interview with the director of Vassiljeostrovskij Lombard, made by Boris Voroschzov).

Particularly after the August 1998 crisis inflation and Rouble devaluation have increased average prices by more than 50%, while the incomes remained more or less constant or even decreased. A large number of households can only survive by at least occasionally bridging their income gaps with short-term credit, or by selling their property in commission or buy-and-sale shops. Pawnshop credit seems to be an important issue in their survival strategies.

In St. Petersburg the 1998 yellow pages outline 45 registered pawnshops, and it may be guessed that there are some more. Among these 45 pawnshops, 7 branch offices belong to the public pawnshop company "*SPB Gorodskoj Lombard*" (SPB City Lombard", an OAO or 'open joint-stock company') with around 20% of the shares held by the city administration, 6 branches to the firm "*Ob'edionnij Lombard*" (United Lombard), an OAO and 4 branches to the OAO firm "*SITMAR*". The other firms have only one or two branches. They are all private, except one public lombard called "*Vassiljeostrovski Lombard*".

According to information of the newspaper Business Petersburg (*delovoj Peterburg*) No. 21 from 21 March 1997, SPB City Lombard is the largest firm, followed by United Lombard. These two firms have market shares of 35% and 30%, respectively. This is to say that the two largest firms cover 2/3 of the market share.

We conducted interviews in the state lombard "*Vassiljeostrovskij Lombard*" on Vassilievskij Island, 8 Linea, as well as two branches of "*SPB CityLombard*" in Vladimirskij Prospect (centre) and Bolshaya Pushkarskaya (see map, appendix).

In addition to the lombard houses operate a number of buy-and-sale shops or commission shops, which are, however, distinct from lombard houses in their mode of operation, because they usually do not provide loans to their clients. While the first type of shops buys the goods from the customer and sells it, the latter type of shops only operates as an intermediary. The customer sets the sales price and has to pay a commission for the time until the good is sold. It is important to mention that one firm, 'United Lombard', has diversified its business running both pawnshops and buy-and-sale shops.

6. The Research Findings

Distribution of Interviews and Description of Lombard Houses

In the course of this pilot study we conducted 80 interviews: a number of 43 or 53,8 % in the municipal 'Vassilieostrovskij Lombard', 32 or 40.2 % in two branches of 'SPB Gorodskoj Lombard' and 5 interviews or 6.3 % in a pawnshop in the South Russian city Luga.

Vassilieostrovskij Lombard is a pawnshop in the first floor of house No. 28 in 8 Linea. It was opened as a State Lombard in 1912 and run also during the Communist period. Between 1990 and 1992 there was only one government-run lombard company in St. Petersburg with a number of branches. Then, however, privatisation began, which caused the setting-up of a number of new companies, most of them operating as joint-stock companies. Since then Vassilieostrovskij Lombard has remained the only public pawnshop, due to the fact that the city administration did not provide the permit for its privatisation by arguing that the city needs at least one such public institution. At that time there were 56 employees in the lombard, nowadays only 22. On a whole this lombard plays a marginal role in St. Petersburg with regards to market shares. However, it was chosen as research object due to its uniqueness as a government pawnshop.

The outfit of the lombard house, as well as the technical equipment is mean. There are four to five visible personnel at the counters. While there are no long queues of customers most time of the day, the atmosphere is nevertheless busy, with usually between five and ten customers at the same time, who want to pawn something or pay their interest. The pawning procedure runs as follows: The customer comes to the pawnshop and queues at the counter for loan assessment. When it is his turn he offers his item to the pawnshop to assess it. After having been told he decides whether or

not he will agree to the exchange. When a contract will be made, he has to show his passport or some other official document – there is a list which kinds of documents will be accepted. The employee of pawnbroker fills out some receipts and forms, which the client has to sign. He receives a copy of the documents and goes to the cashier to obtain the loan. Interest will be paid when the customer wants to redeem the item, or after a stipulated period of time.

The rules of pawning are written at the wall on large boards. Customers, however, hardly consider them, but they directly go to the counter to let their pawn assess or to pay their interest. This seems to me very crucial for average pawnshop customers in St. Petersburg. They do not calculate the cost of credit in advance to compare the conditions of different pawnshops, but they are offered a certain loan sum. Or the other way around, the customer comes and requires a certain sum, while the administrator tells him about the adequate loan period (as far as there is a choice) – provided that the pawn will be valuable enough. In a number of cases even the clients do not want the maximum assessment to obtain, because they know that they will be unable to repay. Therefore it can be expected that the interest rate is not among the most important reasons why to choose a particular lombard house as a customer.

Contrary to a number of private pawnshops, which only take jewellery and related items as pawns, this pawnshop accepts a wide spectrum of items.

”We take all: fur and leather coats, carpets, crystal, table ware, cooking pots (as long as they are rather new), and also audio and video apparatuses and valuable metals. The list of those things is made by the director” (interview with the director of Vassilieostrovskij Lombard, made by Boris Voroschzov).

According to the director most customers are regular customers, coming from the neighbourhood and more far away, since they prefer and have more trust in a government pawnshop than to private ones.

”Customers are people of different age. Some time ago customers were rather old, but now there are many middle-aged, as well as young people. As a rule we do not accept things of valuable metals from people under the age of 18. There are many young people, among the drug addicts and young people who practically stole things from their parents and give them to the pawnshop. Many parents come and ask for help to get back the things. But only those who pawned the items have the right to buy them back (...) They can get the things when these come into the shop (for sale, due to default, H.S.), or they make

the things clear with their children” (interview with the director of Vassilieostrovskij Lombard, made by Boris Voroschzov).

Regular customers get exemptions from certain regulations, such as seizing the pawn immediately if interest is not paid. Particularly on Fridays and Mondays are peak hours. Some time ago the pawnshop was also operating on Saturdays, but this is no longer profitable.

The interest rates are as follows: 1st month: 0.7 % per day (21 % per month); advantage period (or 2nd month): 1 % per day (30 percent per month). If even the advantage period will be exceeded without repayment of the loan, the interest until the day of sale of the good amounts to 2 % per day. The storage amounts to 1 % of the loan sum per month. According to the director, an average credit sum amounts to 200-250 Rub, while the maximum sum is 1.000 Rub for valuable items, such as furs.

For gold jewellery the following rates were offered in July 1998, which was before the crisis:

Table 2: Rates for Gold Jewellery, Vassilieostrovskij Lombard, July 1998

Items	Quality	Roubles/gram
Gold rings	500	38
	583, 585	42
Gold jewellery, gold watches, pieces of gold	500	42
	583, 585	50
	900	65
	916	67
	958	75
Gold pendants, gold bracelets	500	45
	583, 585	60
	750	65
	900	80
	916	82
	958	90

A similar list applies to silver jewellery.

Comparatively speaking, the interest rates in this lombard house are very high, because refinancing takes place by bank credit which structures the interest rates in the lombard house. On the other hand, customers complained that they only receive low sums per gram.

The pawnshop also runs a shop for the sale of unredeemed pawns. This shop, however, opens only twice per week, which indicates its minor importance for this lombard.

The "SPB Gorodskoj Lombard", situated in a backyard of 17 Vladimirskij Prospekt, is the main office of a chain of seven lombard houses in the centre of St. Petersburg (see map). The company dates back to the year 1923 and was run as '*Petrogradskij Lombard*'. It was then already a joint-stock company. Later it was re-organized as a state enterprise and re-named '*Kommunalnij Lombard*', finally '*Obedinjonnij Lombard*' that continued to exist with seven branches in St. Petersburg until Perestrojka. In 1992 the company was re-named once again to '*Municipalnij Gorodskij Lombard*' (since a new private company started as '*Obedinjonnij Lombard*' or United Lombard), while in 1993 it was privatized and shares issued to the public (private and juridical persons), the city still holding a share of 20% of the company. Only one branch remained public, the '*Vassilieostrovskij Lombard*', while the other six branches adapted the name '*SPB Gorodskoj Lombard*'. This company has the biggest market share in St. Petersburg

The large red brick building opposite to a bank is five-storied. The second floor contains the department for precious metals, the third floor for other items, the fourth floor again for precious metals, and the fifth floor for administration. Furthermore, in the ground floor there is a large sales shop, the entrance to which is from the side of the building.

Office hours of the pawnshop are from Monday to Saturday from 9 a.m. to 7 p.m. (with a rest from 12.30 to 1 p.m.), and on Sundays from 10 a.m. to 5 p.m. The sales shop operates from Monday to Saturday from 9 a.m. to 6 p.m. (with a rest from 1 to 1.30 p.m.) and is closed on Sundays.

The office for precious metals is a large room of perhaps 15 to 12 meters with six counters, which is sparsely equipped, with old neon lights under the roof. Here people offer their pawns for assessment pay their interest rates and repay their loans. Loan conditions are fixed at the wall. The counters are computerised. On the other side of the staircase is another room for the handing out of redeemed pawns. This room is 8 to 8 m in size.

The second floor contains the department for other, non-jewellery items. Probably because of the space required, the larger of the two rooms is for storing and handing-

out of pawns, the smaller for obtaining a loan (2 counters). While I entered the room, three women were waiting. The third floor also contains a department for jewellery.

The lombard shop can be entered from another entrance in the ground floor. It is quite large (15 to 6 meters), but there are only a few things for sale: clothes, gold items and one discman, etc.

Like the Vassilieostrovskij Lombard this pawnshop accepts a broad spectrum of items in addition to jewellery. It provides loans amounting to 80% of the assessed market or gold value of an item. Recently, however, it opened a new jewellery shop and lombard house, which not only accepts pawns but also trades in new jewellery and commission goods. This shop, situated at Vostanija place at the corner to Newskij Prospect, opposite to the Moscow Station, is in the heart of the city. Its outfit is extraordinarily expensive, so that the shop obviously aims at the middle and higher income class. In my opinion the chain aims at diversifying its business to increase its market share.

The following interest rates applied in summer 1998 (before the crisis):

Table 3: Interest Rates Sankt Peterburgskij Gorodskoj Lombard, Summer 1998

Up to 30 days	0,4 % interest per day (12,0 % interest per month) plus 0,18 % of the loan sum for storage
Between 30 and 60 days	0,72 % interest per day (21,6 percent per month) plus 0,18 % of the loan sum for storage

Gold is categorized according to quality and categories depending on items and quality proofs (stamps). Loan sums to be achieved are slightly higher than in the public pawnshop.

Sex and Age Distribution of Respondents

Of our 80 interviews partners 52 or 65 % were female and 32 or 35 % male.¹⁶ The age distribution of the respondents was as follows:

Table 4: Sex distribution of respondents * Age distribution, Cross Tabulation

		Age distribution						Total
			< 20	20 - 30	30 - 40	40 - 50	50 - 60	> 60
Sex distribution	male	Count	2	7	4	7	2	6
		% within Age distribution	100,0%	43,8%	26,7%	46,7%	15,4%	31,6%
	female	Count		9	11	8	11	13
		% within Age distribution		56,3%	73,3%	53,3%	84,6%	68,4%
Total		Count	2	16	15	15	13	19
		% within Age distribution	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%

It seems plausible that particularly young people, as well as old-aged people, which do not belong to the economically active population, particularly require short-term credit to bridge income gaps for making a living. On the other hand, these people very often lack acceptable pawns (or have already lost them to the lombard house) to acquire lombard credit.

Marital Status and Household Composition

Since not individuals but usually households develop their survival strategies, we aimed at identifying the household unit, i.e. those people who share a joint budget. Among other demographic features we collected the following variables: marital status; number of dependent children; contribution of children to household income; and sharing income with persons other than husband/wife and children.

¹⁶ These figures are probably not representative. They depend on the time of the day, when interviews were made, as well as on the choice of the interviewers.

Among the respondents 48 or 60 % were married, 17 or 21.3 % single, 7 or 8.8 % widowed and 8 or 10 % divorced. 43 or 53.8 % had no dependent children, 24 or 30% one dependent child, 11 or 13.8 % two and one respondent three dependent children. The other way around, 12 respondents or 15 percent shared their incomes with other people than husband, wife or children. 63 or 78.8 % of the respondents denied a contribution of children inside or outside the household to the budget.

Education and Employment Status of Respondent

Of the respondents 35 or 43.8 % had the highest educational degree (university diploma or comparable degree), 11 or 13.8 % the second-highest degree (technical, medical schools, etc.) and 34 or 42.5% the middle degree (finishing school). The high percentage of university graduates is typical for Russian education during the Soviet period, but the present employment is not necessarily closely related to this status.

The present employment status can only reflect the primary, ‘official’ employment of the respondents, not taking into account secondary or even tertiary employment in both formal and informal sectors. The categories were formed after the interviews.

Table 5: Present Employment of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Still education	3	3,8	3,8	3,8
Pensioner, invalid	28	35,0	35,0	38,8
Teacher, social worker	9	11,3	11,3	50,0
Medical	4	5,0	5,0	55,0
Part-time	6	7,5	7,5	62,5
Office job	5	6,3	6,3	68,8
Shop assistant, market labourer	5	6,3	6,3	75,0
Worker, service job	2	2,5	2,5	77,5
Engineer, electrician	2	2,5	2,5	80,0
Unemployed	16	20,0	20,0	100,0
Total	80	100,0	100,0	

A cross tabulation of sex distribution of respondents to present employment of respondent showed the maximum for both sexes among the pensioners/invalids (34.6 % of female respondents, 35.7 % of male respondents), while female respondents were particularly found among teachers and social workers (15.4 % of all female respondents against 3.6 % of all male respondents), office jobs (9.6 % of all female respondents against 0 % male) and medical jobs (7.7 % of all female respondents against 0 % male): On the other hand, we found particularly males among engineers and electricians and workers (both 7.1 % of all male respondents against 0 % of all female respondents). Whether or not the household contributes to children living outside the household 65 people or 81.3 % denied the question.

Education and Employment Status of Respondent's Partner

We defined "partner" as the person with whom the respondent lives together (husband or wife, boy friend or girl friend) and shares the income. The education background of the partner is very similar to the picture above.¹⁷ The present employment status of the respondents' partner is reflected in the following table:

Table 6: Present Employment of Partner

	Frequency	Percent	Valid Percent	Cumulative Percent
Still education	6	7,5	7,7	7,7
Pensioner, invalid	17	21,3	21,8	29,5
Teacher, social worker	1	1,3	1,3	30,8
Medical	2	2,5	2,6	33,3
Part-time	2	2,5	2,6	35,9
Office job	8	10,0	10,3	46,2
Shop assistant, market labourer	1	1,3	1,3	47,4
Worker, service job	6	7,5	7,7	55,1
Engineer, electrician	4	5,0	5,1	60,3
Unemployed	8	10,0	10,3	70,5
No partner	23	28,8	29,5	100,0
Total	78	97,5	100,0	
Missing	2	2,5		

¹⁷ 18,4 % had the highest educational degree, 28,9 % the middle level, 15,8 % the second-highest education, 30,3% of the respondents had no partner, and 6,6 % of the respondents' partners had not yet finished education.

54 respondents or 67,5 % denied that the household had other income sources than the ones mentioned, while 24 or 30 % confirmed this (2 answers or 2.5 % were missing). We have to keep in mind that usually people are hesitant to speak about informal incomes, because they are afraid of the tax authorities.

Estimation of Necessary Livelihood and Sufficiency of Livelihood

Our interviews fell into the period between early summer and September 1998, which includes the August 1998-crisis. When considering estimation for the necessary household budget, we had to take this into account by adjusting the data. We linked them to the then prevailing US-Dollar course and re-calculated a Rouble basis in pre-crisis prices (exchange rate 6,3 Roubles per US-\$ at that time). Most respondents assumed a necessary livelihood of then around 2.000 Roubles (mean 2.634,78 Roubles, median 2.000 Roubles, standard deviation 2.630,74 Roubles). The 12,5%-percentile covered a range up to 850 Roubles, the 25%-percentile up to 1.000 Roubles, the 50%-percentile up to 2.000 Roubles and the 75%-percentile up to 3.000 Roubles.

Figure 1: Distribution of Estimated Livelihood of Respondents

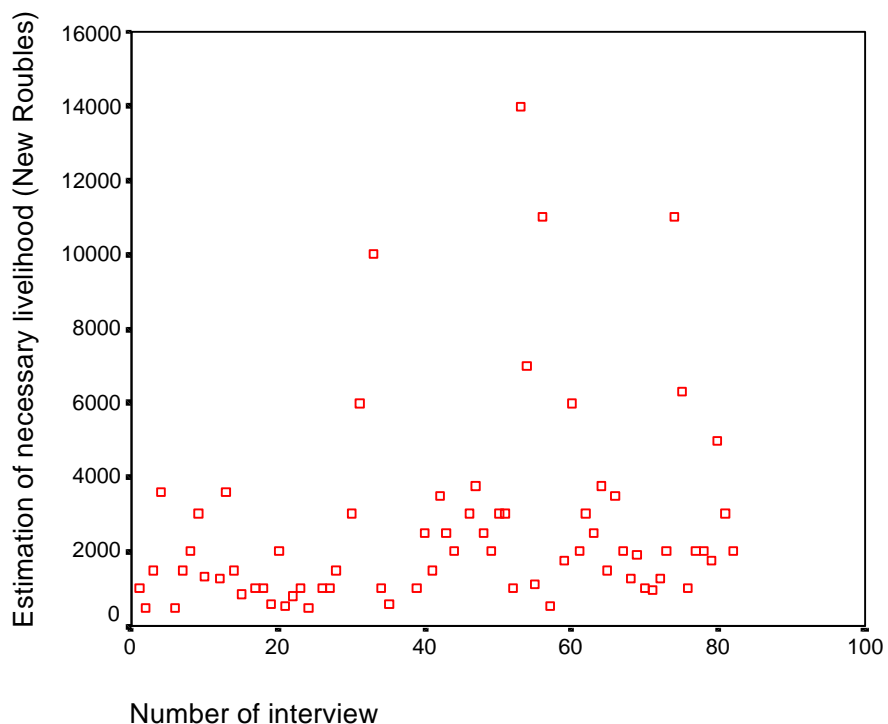
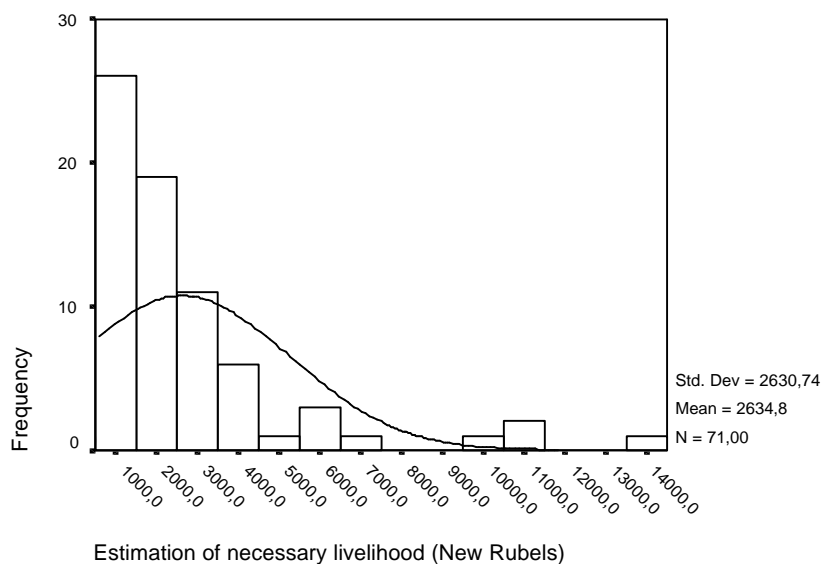


Figure 2: Estimation of Necessary Livelihood



The following tables consider the estimated livelihood with regard to household size. Relating the question of necessary livelihood to the marital status of the respondents, we obtained the following weighted averages related to different percentiles:

Table 7: Estimation of Necessary Livelihood (New Roubles) according to Marital Status of Respondent, Percentiles

		Percentiles				
Weighted Average	Marital status	5	10	25	50	75
	Married	515,00	843,50	1000,00	2250,00	3525,00
	Single	550,00	550,00	1000,00	1750,00	2375,00
	Widowed	500,00	500,00	600,00	1000,00	1100,00
	Divorced	1000,00	1000,00	1562,50	2000,00	2000,00

Taking the 5%-percentile out of consideration, the estimated livelihood for married is not much higher than for singles. Very low estimations are found among the widowed. This group usually correlates to the pensioners, who have very low pensions and lead a very frugal life. The singles in turn are very often young people with low financial means. Divorced people, on the other hand, usually assume a necessary livelihood much closer to married than to singles or widowed.

Relating the estimated livelihood to number of dependent children, the data are as follows:

Table 8: Estimation of Necessary Livelihood (New Roubles) according to Number of Dependent Children, Percentiles

		Percentiles				
Weighted Average	Number of dependent children of respondents	5	10	25	50	75
	0	500,00	545,00	921,25	1500,00	2000,00
	1	1000,00	1000,00	1327,50	2750,00	3645,00
	2	1000,00	1000,00	1075,00	1875,00	4450,00
	3	1000,00	1000,00	1075,00	1875,00	4450,00

a Estimation of necessary livelihood (New Roubles) is constant when Number of dependent children of respondents = 3. It has been omitted.

Relating the estimated livelihood to occupational status of respondents and 'partners' of respondents, respectively, we obtain the following means and standard deviations:

Table 9: Estimation of Necessary Livelihood according to Employment Status of Respondent (New Roubles)

Present employment of respondents	Mean	N	Std. Deviation
Still education	5833,33	3	7076,96
Pensioner, invalid	1464,79	24	876,71
Teacher, social worker	2937,50	8	1465,74
Medical	1500,00	4	707,10
Part-time	3970,83	6	3972,04
Office job	3320,00	5	1756,98
Shop assistant, market labourer	2695,00	4	955,03
Worker, service job	4500,00	2	3535,53
Engineer, electrician	2000,00	2	1414,22
Unemployed	3131,53	13	3513,43
Total	2634,7887	71	2630,75

Table 10: Estimation of necessary livelihood according to Employment Status of Partner (New Roubles)

Present employment status of partner	Mean	N	Std. Deviation
Still education	4210,00	6	5014,84
Pensioner, invalid	1737,81	16	980,51
Teacher, social worker	2000,00	1	
Medical	4500,00	2	2121,32
Part-time	8500,00	2	3535,53
Office job	4465,00	5	4185,08
Shop assistant, market labourer	550,00	1	
Worker, service job	3800,00	5	1823,46
Engineer, electrician	4125,00	4	4062,33
Unemployed	2463,33	6	1037,34
No partner	1373,81	21	774,05
Total	2653,19	69	2661,35

It is difficult to interpret these data, due to high differences between respondents' and partners' economic status.

Linking the estimated necessary income for livelihood with the lombard houses where the interviews were made, the mean ranged from 3056,25 Roubles in Vasilieostrowskij Lombard, 8 Linea (standard deviation 3471,71) to 1273,00 Roubles in the lombard SPB City Pawnbrokers, Bolschaja Puschkarskaya (n=5, standard deviation 379,33). It is, however, difficult to make conclusions, since on one hand we did not talk about real incomes (we tried to avoid wrong answers or no answers at all). Furthermore, the latter figures may be due to the low number of interviews there.

Comparing the data from SPB City Pawnbrokers in Vladimirkij 17 (n=25) the mean was 2277,20 Roubles (standard deviation 1224,48).

Whether or not the respondents considered their actual incomes as sufficient for livelihood was very consistent: 75 or 93% denied, 4 or 5% agreed and 1 respondent was not sure about that.

Frequency of Visiting Lombard House

With regard to the frequency of visiting lombard houses 19 respondents or 23% answered to be there for the first time, 45 or 56% mentioned to visit them sometimes or irregularly and 16 or 20% regularly. Here I have to admit that our question might have been more precise: not all the customers of a lombard house take a loan. Some of them only go for shopping. Of those who have taken a loan some come only for paying their interest or principal sum. The frequency of visits during the last 6 and 12 months ranged from 1 to 7 (mean 2, standard deviation 1,68) and 1 to 13 (mean 3, standard deviation 2,68), respectively.¹⁸

Credit Sources, Debts and Repayment

Asked to make a ranking of different credit sources, which we had pre-selected (several answers were possible), the first choice were friends and colleagues (47 or 58,8% against 33 or 41,3%), followed by the lombard house (44 or 55,0% against 36 or 45%). Far behind this are relatives (36 or 45% against 44 or 55%). 7 or 8,8% of

¹⁸ The cross-tabulation of self-assessed and counted frequency showed that the self-assessment of frequency (first time; sometimes or irregular; often or regular) was not very reliable. Those who mentioned to be regular customers visited the lombard house between 2 and 13 times during a year, those who said they are only sometimes there (irregular customers) were found among all counted frequencies from 1 to 13.

the respondents prefer other credit sources which they did not specify. Usually banks do not provide a credit source, because they do not offer consumer credit at all.¹⁹

46 or 57,5 of the respondents mentioned that they have debts at the moment. Here we should be aware that not all respondents consider a lombard loan as a debt. As we discussed in the theoretical part, strictly speaking this position is right, since they deposited a pawn equal in value to the loan. Whether or not the respondents can pay their interest timely and regularly, 59 or 73,8% of the respondents denied this.

Reasons for Taking a Lombard Loan, Redemption Period and Type of Last Loan

The answers to the situation, when the respondents require a lombard credit mostly remained very unspecific.

Table 11: Situation of Taking Lombard Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Need money	33	41,3	41,3	41,3
When necessary	16	20,0	20,0	61,3
Unforeseen circumst.	3	3,8	3,8	65,0
End of month	6	7,5	7,5	72,5
Beginning of month	1	1,3	1,3	73,8
Depends	5	6,3	6,3	80,0
No answer	16	20,0	20,0	100,0
Total	80	100,0	100,0	

The answers, which refer to a particular time during the month, are related to salary days. In another question, 33 or 41,3% of the respondents confirmed this, while 45 or 56,3% denied this (with 2 or 2,5% giving no answer).

Asking for the primary purpose for taking a lombard loan, 35 or 43,8% of the respondents require these for their livelihood (, whereas we could also include here the answers that the respondents did not receive their salary), followed by those who

¹⁹ Asked whether or not the respondents have a bank account (which is mostly a savings account), 58 or 72,5% of the respondents agreed. Many of these accounts have been freezed in the course of the financial crisis, or got even lost when the banks collapsed.

mentioned that they need money (11 or 13,8%). Other people have perhaps sufficient income for their living, but they have certain extra expenses such as a special medical treatment, university fees, a repair of the car, and the like (9 or 11,3 percent). It is also common to repay one loan with another one (7 or 8,8%).

Table 12: Primary Purpose for Taking a Loan

	Frequency	Percent	Valid Percent	Cumulative Percent
Livelihood	35	43,8	43,8	43,8
Need money	11	13,8	13,8	57,5
Extreme situation	5	6,3	6,3	63,8
Extra expenses	9	11,3	11,3	75,0
Salary not received	2	2,5	2,5	77,5
Repay other debts	7	8,8	8,8	86,3
Help relatives	1	1,3	1,3	87,5
Other	2	2,5	2,5	90,0
No answer	8	10,0	10,0	100,0
Total	80	100,0	100,0	

The maximum redemption period is usually fixed by the lombard house, in some cases one month, in other cases two months. In many cases again there is an "advantage period", a one-month time until the pawn will be lost. Therefore we will find most answers in the categories up to three months. In other cases, however, a new contract can be made, so that the loan period can be extended. In detail, the answers are as follows:

Table 13: Redemption Period

	Frequency	Percent	Valid Percent	Cumulative Percent
No answer	11	13,8	13,9	13,9
One week to one month	34	42,5	43,0	57,0
One to three months	20	25,0	25,3	82,3
Three to six months	5	6,3	6,3	88,6
Six to twelve months	4	5,0	5,1	93,7
More than one year	2	2,5	2,5	96,2
First time loan	1	1,3	1,3	97,5
Always lost	2	2,5	2,5	100,0
Total	79	98,8	100,0	
Missing	1	1,3		
	80	100,0		

Classifying the type of last pawn, the main category was jewellery, which also the lombard houses preferentially take. Since, however, the lombard houses where we

made our interviews, also accept other items, this result is significant. This means that usually people have some jewellery, with which they can obtain relatively high loans, since they depend on the gold price, but not on the market price.

Table 14: Type of Pawn for Last Pawn

	Frequency	Percent	Valid Percent	Cumulative Percent
Other	6	7,5	8,0	8,0
Jewellery	47	58,8	62,7	70,7
Watch	3	3,8	4,0	74,7
Silver utensils	2	2,5	2,7	77,3
Furs	2	2,5	2,7	80,0
Antics	5	6,3	6,7	86,7
Clothes	1	1,3	1,3	88,0
Furniture	1	1,3	1,3	89,3
Consumer electronics	6	7,5	8,0	97,3
Household electronics	2	2,5	2,7	100,0
Total	75	93,8	100,0	
Missing	5	6,3		
	80	100,0		

The loan amount for the last pawn was classified as followed (prices adjusted to price level before the crisis):

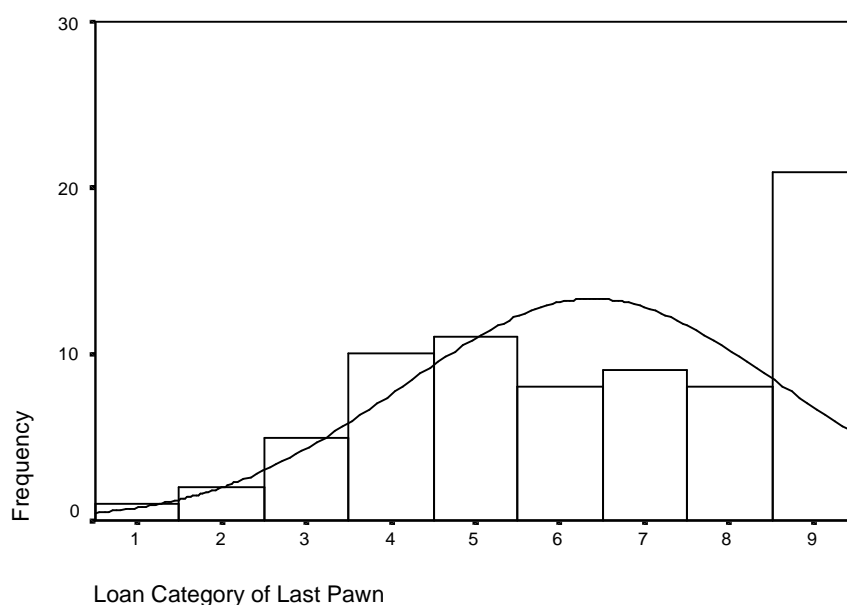
Table 15: Loan Category of Last Pawn

Category	Interval	Frequency	Percent	Valid Percent	Cumulative Percent
1	Less than 30 Rub	1	1,3	1,3	1,3
2	30 - 59 Rub	2	2,5	2,7	4,0
3	60 - 89 Rub	5	6,3	6,7	10,7
4	90 - 119 Rub	10	12,5	13,3	24,0
5	120 - 149 Rub	11	13,8	14,7	38,7
6	150 - 199 Rub	8	10,0	10,7	49,3
7	200 - 249 Rub	9	11,3	12,0	61,3
8	250 - 300 Rub	8	10,0	10,7	72,0
9	More than 300 Rub	21	26,3	28,0	100,0
	Total	75	93,8	100,0	
	Missing	5	6,3		
		80	100,0		

These results were unexpected to us, since 21 of the pawns or 26,3% fall into our maximum category. This is an indicator that many pawnshop customers are not among the very poor people, as we had expected and therefore chosen small

categories. From this experience we could adjust our questionnaires for the second research in spring/summer 1999.²⁰

Figure 3: Loan Category of Last Pawn (for the categories see Tab. 15)



Default

58 or 72,5 percent of the respondents denied that they ever defaulted, while only 20 or 25% confirmed this. This was quite unexpected to us. The types of defaulted pawns can be seen from the following table:

²⁰ I extended this lombard project together with researchers from the Centre of Independent Social Research (St. Petersburg) and some students from the Faculty of Sociology, State University of St. Petersburg. The Volkswagen Foundation finances this currently ongoing research.

Table 16: Type of Defaulted Pawns

	Frequency	Percent Valid	Percent Cumulative	Percent
No default	52	65,0	72,2	72,2
Jewellery	11	13,8	15,3	87,5
Porcelain, vases	2	2,5	2,8	90,3
Silver knives, forks and spoons	1	1,3	1,4	91,7
Various goods	4	5,0	5,6	97,2
Consumer electronics	1	1,3	1,4	98,6
Do not remember	1	1,3	1,4	100,0
Total	72	90,0	100,0	
Missing	8	10,0		
	80	100,0		

Perception of Lombard Houses and Choice of this Lombard House

The respondents' perception of lombard houses is basically more positive (55% of the answers: 13 or 16,3%; helpful: 17 or 21,2%, necessary: 14 or 17,5%) than negative (11 or 13,8%; bad conditions: 8 or 10 percent; humiliating: 1 or 1,3%). One respondent (1,3%) mentioned that he only trusts government pawnshops, while 14 or 17,6% had no definite answer. The answers were open, the categories formed during the data analysis.

The selection of lombard house depends very much on the location. 43 or 54,4% answered that the lombard is close to their home and another 6 or 7,5% that it is on their way. Advice (8 or 10%) and personal knowledge (5 or 6,3%) range next. Advertisement (10 or 12,5%) is another factor often mentioned. Economic reasons seem to be less important. Only 5 or 6,3% mentioned better loan conditions.

The source of information on this pawnshop is very similar. Advice and personal knowledge ranged first (35 or 43,8%), followed by advertisement (23 or 28,8%). The passing-by (6 or 7,5%) is another common reason. Again 5 or 6,3% mentioned that they got information about this pawnshop by chance. 51 or 63,8% confirmed that their preferred lombard is the closest to their place of living, while 21 or 26,3% denied, 5 or 6,3% consider this question as unimportant and 3 or 3,8% did not know this. Whether or not the respondents talk with people that they take loans from the lombard, more than half (42 or 52,5 %) denied this, while 38 or 47,4% agreed to this.

7. Conclusions

Our research has shown that the average customer of the investigated state-owned lombard house, as well as the joint-stock company belong to low-income households – pensioners, military personal and government employees, students, large families, and so on. As expressed by a director of a lombard house, some of them have been impoverished, even trying ‘to sell their last bed sheet’. They belong to both sexes and all age groups. In our sample the group of pensioners was quite strong, which also indicates that they can hardly survive in contemporary Russia.²¹ On the other hand, we have to admit that the very poor, such as for example homeless, do not belong to the customers of lombard houses, since they have nothing to offer for pawn, while many drug addicts use lombard houses as an occasion to pawn stolen consumer goods.

However, we have to emphasise that not only lower income groups are debtors of lombard houses. Others belong to the newly emerging middle-class. In an interview a director mentioned that some clients take their mink coats to the lombard, obtaining up to 10.000 Roubles for loan. And also rich people who need quick money belong to the customers. Not researched here, there are certain private pawnshops, which for example accept expensive import cars for pawn. A director of one private lombard house, where I made another interview, mentioned that in particular cases credit sometimes amounts to more than 10.000 US-\$. And we also see a number of customers, who are no debtors but look into the shops for making a good bargain.

Most respondents explained that their regular incomes are insufficient to make a living. In many cases their assessment what they require was not very far from what the government considers an average minimum income, whereas the standard deviation was wide, depending on the household type (single – married without/with children), age group, employment status and so on. Most customers were regular, or at least occasional customers, venturing every two or three months into the lombard house. In most cases they require a loan for their daily expenses (livelihood), in some cases for extraordinary expenses such as family festivals, medical treatment, and the

²¹ In the streets of St. Petersburg and in the metro stations we nowadays see many pensioners begging for their livelihood. Others seek food and useful items in the garbage. The occurrence of such observations has dramatically increased after the 1998 crisis.

like. Sometimes they use a lombard loan to repay another debt, and in some cases they make the extreme situation (this is the August 1998 crisis when the interviews were after this date, or the reforms in general) responsible for taking a loan. In general, however, it seems that the August 1998 crisis has only sharpened the more of less permanent crisis situation since the 1980s: also in 1997 most incomes were insufficient to make a living.

The specific situation of transformation societies is that – due to quick emergence of a market and a widespread consumer supply – many people have a consumption pattern that often exceeds their capacities. Contrary to Western market societies, hire purchase is rather an exception. As a consequence of this people have to pay cash for their consumer goods. In combination with a high inflation they do this. However, when sudden income gaps occur – for example, the salaries are not paid, a sudden extra expense occurs, or inflation causes price increases – they have no financial backing, except perhaps some small savings that are quickly eaten up or – as it happened after the 1998 crisis – are frozen by the banks. As a consequence of this people take their newly purchased consumer items or jewellery, the latter of which traditionally functions as a means of saving in countries with a high inflation, or countries developing from a pre-modern into a market society.²² With regard to Russia we have to emphasise that people's trust in Russian banks is very low, since many of them have lost their savings already several times. They prefer saving in foreign currency (preferably US-\$) at home or, as an alternative buy jewellery. If required, it can be transferred back into local currency. Our data that three quarters of the respondents have a bank account (usually savings account) seems to contradict this. However, the answers do not say anything about the volume of these savings.

The pawns are mainly jewellery (which all pawnshops accept) and consumer goods (clothes, consumer electronics, household electronics, etc.), depending on the pawnshop conditions. The credit sum is calculated according to the market price of the metals and the weight of the item, or the assessed market price, minus a certain risk/administration charge. In many cases storage costs extra. In most cases the value of the loan exceeded 300 Roubles,²³ which comparatively speaking was the salary of a teacher and even more than an average pension before August 1998.

²² In the case of jewellery prestigious consumption goes hand in hand with saving. The objects are status objects, but they can be transferred into money, if necessary.

²³ Before the August 1998 crisis this amounted to around 90 DM or 55 US-\$.

Among possible credit sources friends and colleagues range first in a ranking, followed by the lombard house and relatives. Among other sources informants mentioned that they sometimes borrow from a moneylender. Furthermore, we have seen that in general the customers consider lombard houses as necessary institutions, and more than half of them value them positively. Nevertheless, more than half of the respondents do not speak with others outside the family about having a lombard credit, and many of those who speak about, do this only with their closest friends.

The redemption period probably depends more on the regulations rather than on choice. As our interviews show, default is not very common. This supports our assumption that most customers are not very poor and can redeem the pawns after some time – if necessary with another pawn. Furthermore, this shows that pawnshops do usually not intend to appropriate their customers' pawns but prefer making their profits with the interest rates – as long as they aim at profit-making at all. However, even government pawnshops in Russia have to cover their cost, since they have to obtain their working capital from banks. The situation may have changed after the 1998 crisis. While it advantageous for those people who had just a debt at that time, because the pawnshops are not allowed to adapt the loan sums to the new price situation, the new assessment of pawns took inflation and more expensive refinancing possibilities into account.

With regard to the location of the lombard house we have seen that advertisement and loan conditions are less important than the appropriateness of the place (close to the home or on the way). Here we should emphasise that sometimes the loan conditions are very hard to understand, since different amounts add up to final cost. Taking these two components together, we think that the rationale of lombard customers is different to what we expected. In many cases they do not study the conditions but simply offer their pawn, asking, how much credit they obtain and how much they have to pay. Sometimes also they even say how much they need, and the lombard house provides this sum if the pawn value exceeds this requirement. To my mind this has nothing to do with the specific case of transformation economies, but fits to such a market segment in general. The rationally calculating lombard customer who seeks information and then chooses the best alternative, does probably not exist.

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